

## THE EFFECT OF INDEPENDENT BOARD COMMISSIONERS ON EARNINGS MANAGEMENT

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### *Abstrak*

Studi ini menyelidiki bagaimana dewan komisaris independen mempengaruhi metode manajemen laba pada perusahaan manufaktur di Indonesia. Analisis regresi linier berganda dilakukan pada data yang diperoleh dari laporan tahunan perusahaan yang terdaftar di Bursa Efek Indonesia. Hasil menunjukkan bahwa praktik manajemen laba secara signifikan dikurangi oleh komisaris independen; ini menunjukkan bahwa lebih banyak komisaris meningkatkan pengawasan dan membatasi perilaku egois manajemen. Penelitian ini menekankan pentingnya peran komisaris independen dalam meningkatkan tata kelola perusahaan. Keterbatasan penelitian terletak pada fokus pada perusahaan manufaktur dalam periode tertentu, sehingga penelitian selanjutnya disarankan memperluas sektor, periode, dan variabel tata kelola lainnya.

**Kata Kunci:** Komisaris Independen, Manajemen Laba, Tata Kelola Perusahaan

### *Abstract*

*This study looks at how independent commissioners affect Indonesian manufacturing businesses' earnings management. Using multiple linear regression, data were extracted from the annual reports of businesses that were listed on the Indonesia Stock Exchange. The findings show that independent commissioners considerably lessen profits management, demonstrating that a larger percentage restricts managerial opportunistic conduct and enhances supervision. The study highlights the importance of independent commissioners in improving corporate governance. The study is limited to manufacturing companies within a specific period, and future research is suggested to expand the sector, period, and governance variables.*

**Keywords:** *Independent Commissioners, Earnings Management, Corporate Governance*

## A. INTRODUCTION

The amount of profit a business can make is one factor that determines its success. Since management frequently uses a company's profit condition as a basis for choices about how to run the business, profit is a crucial indicator in financial statements. The positive difference between revenue and expenses is the general definition of profit. Accordingly, every business seeks to

maintain business continuity through steady profit-making (Pratiwi & Saputra, 2024). Therefore, in order to make the company's performance seem excellent and garner praise, management frequently tries to show favorable results in financial statements. This condition makes profit a component of financial reports that is prone to being exploited by managers for opportunistic purposes to maximize their own interests (Anggraeni & Noviyanti, 2022).

Given Indonesia's persistently high level of corruption, which encourages opportunistic activities like financial statement manipulation, this phenomena is becoming more and more significant there. Major corporations like PT KAI, Kimia Farma, Bank Lippo, PT Hanson International, and Garuda Indonesia have been implicated in a number of manipulation incidents. 10% of financial statements had fraud, according to the ACFE (2018) survey, whereas ACFE Indonesia (2019) documented 239 fraud cases nationwide, 6.7% of which had a direct connection to financial reporting. This condition confirms that earnings management remains a serious issue in Indonesia. The Beneish M-Score has proven effective as an instrument for detecting earnings manipulation, and recent studies even revealed that 50.4% of manufacturing companies in Indonesia were indicated as manipulators. This fact reinforces the urgency of applying fraud detection instruments tailored to the Indonesian context, as well as the need for auditor rotation policies and stronger corporate governance practices to minimize earnings management (Narsa et al., 2023).

The high prevalence of earnings management practices in Indonesia underscores the importance of corporate monitoring mechanisms. One of the main mechanisms is the presence of independent commissioners, whose role is to ensure transparency and accountability in financial reporting. Independent commissioners are expected to act objectively since they have no affiliation with either management or controlling shareholders, thereby minimizing managers' opportunistic behavior (Karina & Sutarti, 2021). However, previous studies have reported inconsistent findings. Several studies conducted by Ramdhanti & Indrati, (2022), Sari & Hasnawati, (2020), Karina & Sutarti, (2021), Indrati & Marsa, (2022), and Sampurno et al., (2023) demonstrated that the presence of independent commissioners has a negative and significant effect on earnings

management, as it enhances monitoring effectiveness. On the other hand, studies conducted by Romadhan et al., (2024), Pratiwi & Saputra, (2024), , Djojo & Astuti, (2023), Litasia et al., (2023), and Setyani & Suhaili, (2023) found weak or insignificant effects, indicating that the presence of independent commissioners in some companies remains merely symbolic. This inconsistency provides room for further research to examine the effectiveness of independent commissioners in constraining earnings management in Indonesia.

### **Agency Theory**

Agency theory, as proposed by Jensen & Meckling, (1976), highlights two key issues related to conflicts of interest within a company. The relationship between principals and agents is established through contracts that authorize managers (agents) to control and utilize resources on behalf of the owners or stakeholders (principals). In this setting, stakeholders entrust managers with the responsibility of running the company and making strategic decisions. However, differences in objectives and the presence of information asymmetry between both parties may trigger agency conflicts, particularly when agents act in ways that prioritize their own interests over those of the principals.

### **Earnings Management**

Earnings management is defined as managerial actions in selecting accounting policies that influence reported income to achieve specific objectives (Healy & Wahlen, 1999). According to Ulfa, (2022), referring to Sulistyanto (2018), such practices are generally carried out through three strategies: income increasing to present positive performance, significantly reducing income through the big bath strategy to improve future performance, and income smoothing to reduce fluctuations by utilizing profit reserves. In this study, earnings management is evaluated using the Modified Jones Model, which was introduced by Jones in 1991.

## **Independent Board Commissioners**

An Independent Commissioner is an individual who is free from family ties, share ownership, or business affiliations with controlling shareholders, directors, or other commissioners, and has no direct relationship with the company (KNKG, 2021). The Forum for Corporate Governance in Indonesia (2001) emphasizes that an Independent Commissioner must meet several key criteria: not being part of the company's management structure, not holding controlling or majority shares nor having relationships that could influence major shareholders, and not using their position for personal gain. With these characteristics, Independent Commissioners play a crucial role in balancing stakeholder interests and preventing potential fraud due to their neutral standing. Their responsibilities include evaluating and determining the company's strategic direction, overseeing strategy implementation as well as the use of funds and investments, monitoring corporate governance, risk management, and policy changes, and ensuring transparent communication so that reliable information is accessible (Basar et al., 2024).

From the perspective of agency theory, independent commissioners are regarded as the main control mechanism that plays a crucial role in monitoring managerial actions to ensure alignment with shareholders' interests. In addition, independent commissioners are responsible for overseeing the performance of the Board of Directors in managing the company and ensuring the transparency and disclosure of financial statements. Their independence from any conflicting interests or affiliations places them in a neutral position to prevent opportunistic practices, including earnings management (Setyani & Suhaili, 2023). Previous studies conducted by Ramdhanti & Indrati, (2022), Sari & Hasnawati, (2020), Karina & Sutarti, (2021), Indrati & Marsa, (2022), and Sampurno et al., (2023) also support this view, demonstrating that independent commissioners' ability to effectively monitor executives can curb their opportunistic behavior, which has a detrimental impact on earnings management. Therefore, there is less chance of earnings management tactics in the corporation the more independent commissioners there are. With reference to the previously discussed theory and previous research, the second hypothesis might be stated as follows:

H1: Independent Commissioners negatively affect Earnings Management.

### B. METHOD

To investigate the impact of firm size, dividend policy, and profitability on earnings management techniques, this study uses a quantitative methodology. Both the official business websites and the IDX portal, [www.idx.co.id](http://www.idx.co.id), provided the annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2023 period, which served as the source of the study data. Two hundred and twenty manufacturing enterprises make up the research population. Purposive sampling was used to choose the sample based on predetermined standards, including that the companies had to be regularly listed on the IDX, provide annual reports in Indonesian Rupiah, and not declare positive results between 2020 and 2023. Based on these criteria, a total of 102 companies were selected, resulting in 408 firm-year observations over the four-year study period.

#### Operational Measurement of Variables

**Table 1. Operational Measurement of Variables**

Variable	Size Ratio	Scale
Independent Board of Commissioners	Independent Board of Commissioners = (Number of Independent Commissioners)/(Total Number of Board Commissioners) × 100%	Ratio
Earnings Management	$DACit = TACit / (A(it-1)) - NDAit$	Ratio

Source: Data Author

### C. RESULTS AND DISCUSSIONS

#### Descriptive Statistics

**Table 2. Descriptive Analysis Results**

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
Independent Board Commisioners	408	22.22	83.33	43.9776	11.87851
Earnings Management	408	-.35	.68	-.0265	.09968
Valid N (listwise)	408				

Source: Author Processed Data (2025)

The descriptive analysis results show that the proportion of independent commissioners among the sample companies ranges from 22.22% at PT Indonesia Fibreboard Industry Tbk (IFII) to 83.33% at PT Unilever Indonesia Tbk (UNVR), with an average of 43.98%. Meanwhile, the earnings management variable records a minimum value of -0.35 at PT Central Proteina Prima Tbk (CPRO) and a maximum of 0.68 at PT Alkindo Naratama Tbk (ALDO), with an average of -0.0265. This indicates that the composition of independent commissioners in manufacturing companies is quite diverse, while earnings management practices fluctuate, showing both income-decreasing and income-increasing tendencies.

## Hypothesis Testing

### F-test

**Table 3. F-Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	134.518	1	134.518	146.585	.000 <sup>b</sup>
	Residual	372.579	406	.918		
	Total	507.097	407			

a. Dependent Variable: Earnings Management

b. Predictors: (Constant), Independent Board Commisioners

Source: Author Processed Data (2025)

According to the results of the F-test, earnings management is significantly impacted simultaneously by the Independent Board of Commissioners variable. “This is evidenced by the F-value of 146.585 with a significance level of  $0.000 < 0.05$ , meaning that the regression model is considered fit to explain the relationship between the independent and dependent variables” (Ghozali, 2018).

## Coefficient of Determination Test (R<sup>2</sup>)

**Table 4. Coefficient of Determination Results**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.515 <sup>a</sup>	.265	.263	.95796	2.104

a. Predictors: (Constant), Independent Board Commissioners  
b. Dependent Variable: Earnings Management

Source: Author Processed Data (2025)

According to the coefficient of determination (R Square) value of 0.265, 26.5% of the variation in earnings management can be explained by the Independent Board of Commissioners variable, with other factors outside the study model accounting for the other 73.5%. The result has been corrected for the amount of variables utilized, as indicated by the corrected R Square (0.263), which also indicates that the model is reasonably stable (Ghozali, 2018). The standard error of estimate, on the other hand, is 0.95796, which represents the model's prediction error. Given that it is near to 2, the Durbin-Watson score (2.104) indicates that the regression model does not have an autocorrelation issue.

## t-Statistic Test

**Table 5. Results of the t-Statistic Test**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.944	.182		27.152	.000
	Independet Board Commisioners	-.048	.004	-.515	-12.107	.000

a. Dependent Variable: Earnings Management

Source: Author Processed Data (2025)

The results of the t-test indicate that earnings management is significantly and negatively impacted by the independent board of commissioners. According to this research, the more independent commissioners there are, the more effectively the supervisory duty is performed, which in turn lessens managers' opportunistic conduct. Independent commissioners are crucial to the framework of sound corporate governance because they are not influenced by internal business interests, which permits them to oversee managerial policies more objectively and guarantee accountability and transparency in financial reporting (Utami et al., 2025). Since they have no affiliation with either management or controlling shareholders, independent commissioners are expected to minimize earnings management practices (Karina & Sutarti, 2021). According to a number of earlier studies, including Ramdhanti & Indrati (2022), Sari & Hasnawati (2020), Karina & Sutarti (2021), Indrati & Marsa (2022), and Sampurno et al. (2023), the presence of independent commissioners has a negative and significant effect on earnings management because they can increase the effectiveness of monitoring. This finding is in line with those findings. This finding is theoretically consistent with agency theory, which holds that independent commissioners serve to lessen conflicts of interest between shareholders and managers. In practice, the results suggest that businesses could enhance the independent board of commissioners' function as an internal control mechanism, and investors and regulators might view it as a crucial metric for evaluating the caliber of corporate governance.

#### **D. CONCLUSIONS**

The results of this study show that the presence of independent commissioners has a negative and significant impact on earnings management. They also show that the more independent commissioners there are, the more successful the supervisory function is at preventing managerial avarice. This outcome lends credence to agency theory, which highlights the supervisory function in mitigating conflicts of interest between shareholders and managers. Companies must enhance the function of independent commissioners as an efficient corporate governance instrument,

according to the practical implication. The topic of this study is limited to manufacturing enterprises during a particular time frame.

## E. SUGGESTIONS

To get more broadly applicable findings, future studies should broaden the sectors and observation times. To give a more thorough picture of Indonesia's earnings management control procedures, additional governance factors including audit committees, ownership structure, and auditor rotation can be added.

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